

Operational Review Task Force Travel Report



November 12, 2010

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Preface

Governor Robert F. McDonnell established an Operational Review Task Force in September 2010 to look for cost cutting best practices in Virginia's operational costs, to eliminate inefficiencies and reduce excess waste, and to identify and implement best practices for state government. This Task Force was formed as a result of a recommendation by the Commission on Government Reform and Restructuring. The Task Force was chaired by Special Advisor to the Commission Bill Leighty, chief of staff to former Governors Mark Warner and Tim Kaine. The Task Force was charged with the evaluation of 12 areas of government to identify potential savings in operational costs and recommend strategies for realizing those savings. Each of the twelve Task Force teams includes a representative from local government, state government, the private sector and agency staff. Similar reviews were done during the previous administration. In addition to considering new recommendations for reducing operational costs, this Task Force followed up on the efficacy and implementation of previously recommended strategies.

The Task Force consists of a range of experts in state government, local government and the private sector. Twelve teams were assigned to look at one specific area of state spending each. Each team's task was to evaluate current operational costs, identify best practices for reducing costs and recommend a strategy for realizing a specific goal for savings. The twelve areas are as follows:

 Energy	 Travel
 Water	 Fleet Management
 Waste Management	 Banking Services
 Phones & Data	 Accounts Receivable
 Printers, Copiers & Fax Machines	 Surplus Property
 Asset Inventory & Management	 Insurance (Health & Risk Management)

The Task Force was instructed to complete its work no later than November 12, 2010 with Chairman Leighty presenting the report and recommendations to the Governor's Commission on Government Reform and Restructuring at its next meeting. The recommendations will be considered for inclusion in a report from the Commission, due on December 1, 2010.

BACKGROUND

The Travel Operational Review Task Force mission was to review spending patterns, identify best practices, make recommendations, and identify reasonable savings.

The group convened on September 29, 2010 and conducted all subsequent meetings and research using available technology versus travel.

The work reflected in this report builds upon the earlier operational review of travel published in 2007. The team reviewed travel policies for the Commonwealth, federal government, certain Virginia local governments, and selected AAA bond-rated states. In addition, the team examined travel industry best practices. Ideas and suggestions submitted to Governor McDonnell's Commission on Government Reform and Restructuring were also taken into consideration.

TRAVEL OPERATIONAL REVIEW TEAM

An operational review team with representatives from state and local government as well as private industry examined travel practices across the Commonwealth. The group had a wide variety of experiences and backgrounds from state and local government as well as the private sector, including management professionals, legal, accounting, and purchasing expertise. Team members included:

ROLE	REPRESENTATIVE	TITLE
<i>State Sponsor</i>	Sara Redding Wilson	Director, Virginia Department of Human Resource Management
<i>Private Industry</i>	Joseph S. Testa	Vice President of State Government Affairs, American Express Company
<i>Local Government</i>	George Hrichak	Fleet Manager, City of Chesapeake
<i>Agency Staff</i>	Dan Hinderliter	Director of Contracts and Finance, Virginia Department of Human Resource Management
<i>Agency Staff</i>	Frank Tetrick	Assistant Commissioner, Virginia Department of Behavioral Health and Developmental Services
<i>Agency Staff</i>	Rosanna Van Bodegom Smith	Director of Fiscal and Grants Management, Dept. of Behavioral Health and Developmental Services
<i>Agency Staff</i>	David Von Moll	State Comptroller, Virginia Department of Accounts

SPENDING

The Commonwealth spent over \$200 million dollars in travel in each of the last two years. Even though travel restrictions have been in place the last several years, the FY 2010 costs increased 1 percent over the prior year.

Agency		Higher Education		Total	
FY 2008	\$ 128,929,965	FY 2008	\$ 39,133,295*	FY 2008	\$ 168,063,261*
FY 2009	122,004,877	FY 2009	79,210,626	FY 2009	201,215,504
FY 2010	123,100,266	FY 2010	80,110,217	FY 2010	203,210,484
3 Year Total	\$ 374,035,110	3 Year Total	\$ 198,454,139	3 Year Total	\$ 572,489,249 *

Source: Department of Accounts Expenditure Data

* Due to an issue with data collection from several institutions of higher education, the FY 08 data is under-reported.

SPENDING BY CATEGORY

To understand what was driving the increase, the team reviewed the nine broad categories the Commonwealth uses to account for travel.

FY 2010 TRAVEL SPEND in millions									
Category	Supplements & Aid	Subsistence & Lodging	Public Carriers	Employee Training	Personal Vehicle	State Vehicle	Meals Not IRS Report	Moving & Relocation	Meals IRS Report
Code	1286	1285	1283	1227	1282	1284	1288	1281	1287
Agency	81.3	8.3	3.6	5.6	9.5	9.3	4.4	0.2	0.8
Higher Ed	(1.0)	23.6	21.4	17.9	4.9	3.7	6.2	2.1	1.2
TOTAL	80.3	31.9	25.0	23.5	14.4	13.0	10.6	2.3	2.0
Change	4 %	9 %	3 %	- 5 %	- 8 %	- 9 %	6 %	- 33 %	-13 %
Trend	▲	▲	▲	▼	▼	▼	▲	▼	▼

Almost 40 percent of all travel expense is for people in the care and custody of the Commonwealth, and is by far the highest travel spending category. Lodging is in second place and represents 15 percent of all travel expense.

Trend highlights when comparing FY 2010 to FY 2009 spending include:

- Travel expenses for public carriers, lodging and meals not reportable to the IRS all increased by 3 percent, 9 percent and 6 percent respectively.
- Travel for people in the care or custody of the Commonwealth increased by 4 percent.
- Both personal and state vehicle expenses declined by 8 percent and 9 percent respectively.
- Travel for employee training as well as moving and relocation expenses declined 5 percent and 33 percent respectively.
- Meals during trips and work assignments reportable to the IRS declined 13 percent.

SPENDING BY THE TOP TEN AGENCIES AND INSTITUTIONS

Ten agencies accounted for 75 percent of the travel expense in the Commonwealth.

- The Department of Medical Assistance Services alone incurred 38 percent of all travel spending.
- Six of the top ten were higher education institutions and accounted for 31 percent of all travel spending.
- The Department of Health and the Department of Transportation each represented two percent of all travel spending.
- The Circuit Courts spent less than two percent of all travel.

TOP TEN AGENCIES & INSTITUTIONS TRAVEL SPEND in FY 2010	
Agency	FY 2010 Spend
Department of Medical Assistance Services	\$ 77,800,191
VPI & State University	22,317,971
University of Virginia - Academic Division	15,528,250
Virginia Commonwealth University	8,282,751
George Mason University	8,201,165
James Madison University	5,574,495
Department of Health	4,444,837
Department of Transportation	4,399,857
Circuit Courts	3,389,242
The College of William and Mary	2,489,503
TOTAL	\$ 152,428,262

SPENDING BY THE TOP TEN AGENCIES FOR DIRECT AID

Since travel for direct aid is by far the largest travel spending category, a separate review of that category was warranted. The following chart shows the spending pattern for the last three fiscal years highlighting the top ten agencies in travel spending for Supplements and Aid. The top ten agencies increased spending on travel expenses for people in the care and custody of the Commonwealth by 3 percent in FY 2009 and 6 percent in FY 2010.

Top Ten Agencies Spending on Direct Aid			
Agency	FY08	FY09	FY10
Department of Medical Assistance Services	\$ 71,150,729	\$ 73,172,394	\$ 77,592,250
Circuit Courts	\$ 2,802,060	\$ 2,559,570	\$ 1,999,889
Department of Rehabilitative Services	\$ 875,301	\$ 91,425	\$ 1,052,184
Dept. for the Blind and Visually Impaired	\$ 103,310	\$ 172,634	\$ 189,953
Department of Juvenile Justice	\$ 70,598	\$ 46,118	\$ 82,569
Southwestern Virginia Mental Health Institute	\$ 33,450	\$ 56,149	\$ 65,734
Department of Health	\$ 20,368	\$ 32,382	\$ 52,476
Corrections - Division of Institutions	\$ 59,421	\$ 62,561	\$ 48,811
Department of State Police	\$ (173)	\$ 0	\$ 44,660
Western State Hospital	\$ 24,686	\$ 36,298	\$ 21,800
Total	\$ 75,139,749	\$ 77,029,532	\$ 81,150,327

- The Department of Medical Assistance Services incurred 95 percent of the entire direct aid travel expenses and spent almost \$78 million in FY 2010. DMAS increased expenses by 3% in FY 2009 and 6% in FY 2010.

- Only two other agencies spent more than a million dollars in direct aid travel in FY 2010: the Circuit Courts with \$2 million, down 29 percent since FY 2008, and the Department of Rehabilitative Services with \$1.1 million, up 20 percent since FY 2008.
- Seven out of the ten agencies increased travel spending both years.
- Only the Circuit Courts decreased travel spending in direct aid both years.
- The Virginia Department of Corrections Division of Institutions increased spending the first year and decreased spending the second year.
- The Department of Juvenile Justice decreased spending the first year and increased spending the second year.

SPENDING EXCLUDING SUPPLEMENTS AND AID BY THE TOP TEN AGENCIES

The chart below shows the top ten agencies travel spending without regard to direct aid.

Top Ten Agencies Spending not including Direct Aid			
Agency	FY08	FY09	FY10
Department of Transportation	5,278,930.85	4,053,300.54	4,399,856.64
Department of Health	5,221,811.60	4,840,558.00	4,392,360.64
State Corporation Commission	2,034,711.45	2,083,961.43	1,893,726.29
Circuit Courts	1,679,037.38	1,599,980.64	1,389,352.80
Supreme Court	1,712,500.70	1,701,254.01	1,293,175.83
Department of State Police	1,873,359.40	1,723,123.10	1,257,383.34
Department of Social Services	1,975,986.71	1,459,684.83	1,196,705.57
Department of Agriculture and Consumer Services	1,463,856.63	1,197,905.77	1,175,657.98
Department of Juvenile Justice	1,543,549.97	1,060,699.64	1,023,240.35
Virginia Employment Commission	639,986.48	780,415.72	990,300.68
TOTAL	\$23,423,731.17	\$20,500,883.68	\$ 19,011,760.12

The total travel spending excluding direct aid for these agencies declined in both FY 2009 and FY 2010, with a 19 percent decrease in spending since FY 2008.

Top Ten Agencies Change in Spending not including Direct Aid from FY 08 to FY 10		
Agency	Change FY 08 to FY 10	
Virginia Employment Commission	\$350,314.20	55%
State Corporation Commission	(140,985.16)	-7%
Department of Health	(829,450.96)	-16%
Department of Transportation	(879,074.21)	-17%
Circuit Courts	(289,684.58)	-17%
Department of Agriculture and Consumer Services	(288,198.65)	-20%
Supreme Court	(419,324.87)	-24%
Department of State Police	(615,976.06)	-33%
Department of Juvenile Justice	(520,309.62)	-34%
Department of Social Services	(779,281.14)	-39%
TOTAL	(\$4,411,971.05)	-19%

- Only the Virginia Employment Commission had increased travel expenses in both the last two years, with a 55 percent increase for the period.
- Double digit decreases occurred in eight agencies, with three agencies decreasing by one third or more. The Department of Social Services decreased 39 percent, the Department of Juvenile Justice decreased 34 percent, and the Department of State Police decreased 33 percent.

TOP TEN AGENCY COST DRIVERS FOR TRAVEL SPENDING

- **Agency Missions.** Some agencies require travel to perform their missions, including transportation of sick or injured citizens and wards of the Commonwealth, visiting nursing services, statewide construction projects, and inspections for such things as sewer, water, and restaurants.
- **Federal Guidelines.** Increases in allowed per diems for lodging, meals, and incidentals as well increases in personal vehicle use reimbursement rates resulted from the Commonwealth's use of the Federal Guidelines for per diems.
- **Industry Cost.** Travel industry costs continued to increase, and these costs were past along to the consumer.
- **Mandatory and Specialized Training.** Training is required to maintain professional certifications and licenses.
- **Specific Agency Cost Drivers.**
 - **Department of Medical Assistance Services.** One of the primary functions of DMAS is to provide transportation to Medicare recipients who have no other way to get to Medicare services. In 2002, DMAS adopted a transportation brokerage model in an effort to control spiraling costs and fraud in a fee for service program. Under this model, all trips must be preauthorized and the fraud risk is shifted to the contractor. Direct services to Medicare recipients accounted for 99.73% of the travel expenditures for DMAS.
 - **Virginia Department of Health.** The majority of expenditures occurred in two areas, Personal Vehicle use and State Owned or Leased Vehicles.
 - **Virginia Department of Transportation.** The majority of travel expenditures for the Department of Transportation occurred through State Owned or Leased Vehicles, Meal Reimbursement-Not Reportable to IRS, Public Carriers, and Employee Training-Transportation, Lodging, Meals & Incidentals. The largest increases from FY09 to FY10 occurred in the area of Public Carriers.

- **Circuit Courts.** The primary cost driver is the provision of transportation services to felons, children and incapacitated adults through such programs at the Virginia Drug Treatment Courts Program (Source: Circuit Courts Website). Other cost drivers were Public Carriers and Vehicle travel for business and training.
- **State Corporation Commission.** Cost drivers were Business travel, Training travel and use of State Vehicles for transportation for business and training.
- **Department of Rehabilitative Services.** DRS provided transportation services to many injured or disabled citizens and used food, lodging, and vehicle transportation for business and training.
- **Virginia Employment Commission.** VEC received federal stimulus funding to provide services to unemployed Virginians. Existing staff offices were relocated to large layoff locations, and new offices were opened to accommodate demand. Hundreds of technical staff were hired and required travel expenditures to support their training requirements.
- **Department of State Police.** Cost drivers included business travel, training travel and use of public carriers.
- **Supreme Court.** State Supreme Courts cost drivers were in the area of Personal Vehicles and Travel, Subsistence and Lodging.
- **Department of Social Services.** DSS cost drivers were vehicle transportation, and food/lodging for business travel, and training travel.

BEST PRACTICES

The team identified the best practices for travel spending. These include:

BEST PRACTICES FOR TRAVEL SPENDING

- Consolidate supply sources to realize economies of scale.
- Avoid travel.
- Provide comprehensive guidelines to travelers.
- Standardize the travel policy.
- Integrate the policy into the booking process.
- Track performance.
- Benchmark industry performance.

- **Consolidate supply sources to realize economies of scale.**

Although the Commonwealth does not have a consolidated travel contract, the Department of General Services implemented an **outsourced fleet model** via Enterprise Rent-A-Car which avoided \$910,526, or 26 percent per mile, in costs in FY 2009. Fleet management details are available in a separate operational review. If the Fleet model were applied to other travel categories, the Commonwealth's travel expenses should be reduced.

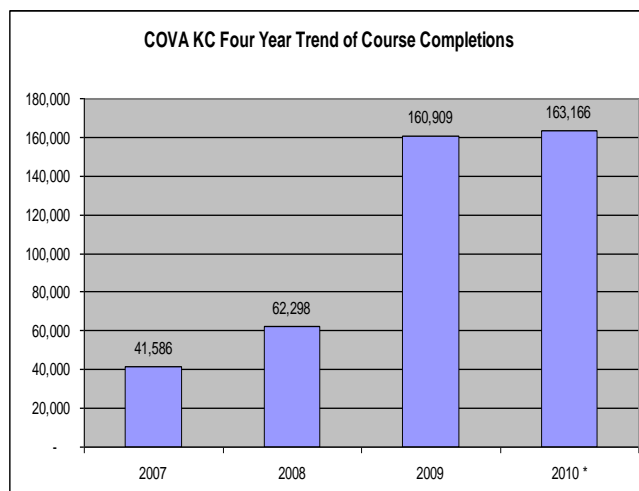
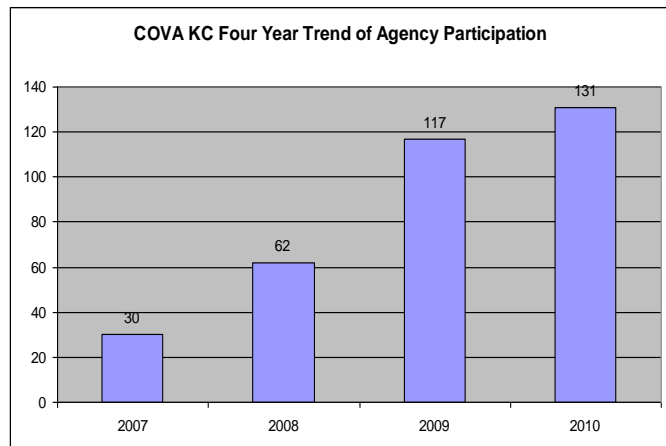
- **Avoid travel.**

During these difficult financial times, the Governor implemented travel restrictions to reduce travel spending. Although this had a positive impact on travel expense, it had a negative impact on the training, development, and certification required for employees to perform their jobs.

Online training has helped fill the void by providing training without the need for travel. In 2007, the **DHRM Commonwealth of Virginia Knowledge Center** was implemented and agencies and employees were provided access to online classes 24/7. These classes are free and allow participants to schedule their attendance whenever it is convenient for them. The Knowledge Center supports a database of learning events statewide.

In addition to agency specific classes, many courses are available to all state employees. The Department of Human Resource Management entered into an agreement in 2010 with the Community College Workforce Alliance to enter content into the Knowledge Center. Although there is a small fee involved for some of these additional courses, it expanded the opportunities available to employees.

In FY 2010, more than 163,000 classes were taken in the Knowledge Center. The drivers for the increase in employee and agency participation for online courses include budget reductions, travel reductions, increased awareness through central agency participation, ease of use, and ability to track courses for compliance.



There are 131 agencies as well as some localities participating in the Commonwealth Knowledge Center today. A small number of agencies as well as most institutions of higher education utilize their own knowledge centers and generally do not participate in the Commonwealth Knowledge Center.

- **Provide comprehensive guidelines to travelers.**

The Commonwealth of Virginia maintains travel guidelines through the Commonwealth Accounting Policies and Procedures (CAPP) manual. When benchmarked against other states, local governments and the private sector, the Commonwealth procedures are extremely comprehensive. Generally, the larger the organization, the more detailed the policies and procedures.

- **Standardize the travel policy.**

The Commonwealth travel policy is standardized and rates follow the Federal per diem to facilitate reimbursement processing across government sectors.

- **Integrate the policy into the booking process.**

The Commonwealth has a decentralized booking process which is handled at the agency level. Compliance is monitored at the agency level as well as through Department of Account compliance reviews and Auditor of Public Account audits. In 2003, the federal government issued three E-travel contracts to CW Government Travel Inc, Electronic Data Systems and Northrop Grumman. E-travel delivered a commercially hosted integrated travel service tool to the desktops of federal employees. This system was initiated and resulted in significant savings. The federal government is currently re-soliciting for a “version 2.0” of these same services.

- **Track performance.**

The Commonwealth Accounting and Reporting System (CARS) tracks travel related expenditures at the Agency level and not by trip. The CARS system will be replaced by a new system in fiscal years 2013 and 2014. The new Cardinal system will not include an integrated travel system, although detailed access to travel data will be improved.

- **Benchmark industry performance.**

The Commonwealth does not have a standardized process of benchmarking travel practices. While expenditures are easily tracked online, it is difficult to compare across organizations since missions vary greatly.

RECOMMENDATIONS

The Team recommends the following actions which can be implemented by policy or Executive Order. Code changes are not needed.

Recommendation 1 - Implement a mandatory statewide travel contract.

The majority of agencies do not have a travel contract, but individually negotiate each trip. An outsourced supplier could leverage greater volume to maximize negotiating power and savings.

Recommendation 2 - Implement a comprehensive travel automated system.

Online travel systems are available and could be a requirement in any travel contract for a more efficient and effective travel system. The benefits of a managed travel program include:

- Enhanced reporting capability allowing comparisons
- Compliance control
- Unused ticket tracking
- Experienced agents
- Customer service
- Reduced staff time

By utilizing an automated system, employees can focus on their primary mission rather than administrative details. An investment in technology would be needed to implement this recommendation.

Recommendation 3 – Increase availability and utilization of teleconferencing and online meetings.

The team recommends the increase utilization of teleconferencing and online meetings. Some non-general fund agencies have the infrastructure for one or both of these options. Travel savings and efficiencies could be realized if more agencies had this capability. The Virginia Information Technologies Agency should provide assistance in developing a statewide network which may require an investment by the Commonwealth.

Recommendation 4 – Expand utilization of the DHRM Commonwealth Knowledge Center.

Although 131 agencies currently are participants in the Commonwealth Knowledge Center, there are others that do not offer online training to their employees or have their own learning system. A consolidated approach would result in savings. There is an opportunity for collaboration with local governments, political subdivisions and independent agencies that would like to participate in the Commonwealth Knowledge Center.

Recommendation 5 – Permit local government, political subdivisions, and independent agencies to participate in state travel programs.

If the Commonwealth implements a travel management contract and a comprehensive automated system, the system should be leveraged for both state and local governments. Volume drives discounts, and including additional participants in the program would drive down costs for everyone. It would be a win-win opportunity the Commonwealth and other government entities to partner in a travel management program.

Recommendation 6 – Conduct a study on travel spending for people in the care and custody of the Commonwealth.

Almost 40 percent of the state’s travel expense is for people in the care and custody of the Commonwealth. Supplements and Aid is by far the largest category of travel spending. Further study of this spending is recommended, considering such things as:

- Identify best practices to improve and strengthen the practices already in place,
- Explore ways to leverage travel spending for people in the care and custody of the Commonwealth,
- Examine the program models used by other states to transport people in their care and custody, and
- Determine what program models would increase savings and efficiencies in the Commonwealth.

POTENTIAL SAVINGS

The lack of detailed management information on current spending makes it difficult to effectively forecast potential savings. However, savings should be achieved by:

- Volume discounts
- Reduced staff time
- Travel avoidance through increased use of technology

The Fleet Management contract achieved 26 percent cost avoidance in FY 2009, indicating the power of volume discounts. A similar approach should be taken for other modes of travel. An automated, central travel system would provide the data to negotiate the discounts.

As part of the Operational Review, the team received information from a vendor indicating that the state of West Virginia saved 15 to 20 percent per year in travel when they implemented a combination of automation technology and a central purchasing system. To date, we have been unable to verify these savings.

Contact was made with Utah and Maryland. Both states strongly believe that the conversion to a centralized travel management system resulted in savings. The lack of historical data in both Utah and Maryland made the identification of specific savings from prior practices difficult to identify.

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